

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 04334 01 OF 03 121159Z

11

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

/081 W

----- 048391

R 121147Z FEB 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 0593

INFO AMEMBASSY BERN

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 04334

PASS CEA, TREASURY, FRB

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)
REVIEW OF SWITZERLAND' FEBRUARY 5

REFS: (A) EDR(76)2, (D) STATE 27609

1. SUMMARY: AT EDRC REVIEW SWISS DELEGATION (LED BY L'HUILLIER, CONSULTANT, UNIVERSITY OF GENEVA) SUBMITTED REVISED NATIONAL ACCOUNTS DATA WHICH SHOWED ESTIMATED DROP OF 7 PERCENT IN 1975 SWISS GNP, COMPARED WITH 4 PERCENT PREVIOUSLY ESTIMATED BY SWISS AND BY SECRETARIAT. IN VIEW LARGE L975 DECLINE, SECRETARIAT AND SOME DELS FOUND OFFICIAL PROJECTIONS OF 1-1.5 PERCENT 1976 GNP GROWTH QUESTIONABLE. SWISS ACKNOWLEDGED THAT RISKS WERE ON DOWNSIDE, AND NOTED THAT STRONG GROWTH OF WORLD TRADE WAS IMPORTANT ASSUMPTION UNDERLYING THEIR FORECASTS. SWISS ALSO PROVIDED FURTHER INFORMATION ON MAGNITUDE OF STIMULATORY FISCAL PROGRAMS, INDICATING THAT 1976 BUDGETARY DEFICIT COULD BE OVER 2 PERCENT OF GNP. SINCE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04334 01 OF 03 121159Z

SECRETARIAT HAD CALCULATED DEFICIT OF 1.6 PERCENT OF GNP,

ITS GROWTH FORECASTS MAY BE REVISED UPWARD. SWISS AGREED WITH SECRETARIAT PROJECTION OF CURRENT ACCOUNT SURPLUS (\$1.9 BILLION), AND STATED THAT WHILE THEY HAVE NOT EXCHANGE RATE TARGET FOR 1976, RATE IS CURRENTLY AT CRITICAL LEVEL FOR EXPORTS, AND THAT CONTACT WITH SNAKE COUNTRIES WILL CONTINUE. SWISS DESCRIBED THEIR MONETARY POLICY AS ONE OF "CONTROLLED EXPANSION"; THEY WILL AIM AT STABLE GROWTH (AT 6 PERCENT) OF M1 DURING 1976 AND WILL ATTEMPT TO SET INTEREST RATES SO AS TO MINIMIZE UPWARD PRESSURE ON FRANC. SWISS STATED THAT MEDIUM-TERM POLICY WILL BE TO PRODUCE CONTROLLED RESTRUCTURING OF ECONOMY (E.G. SHRINKAGE OF CONSTRUCTION SECTOR) AND TO REDUCE SIZE OF BUDGETARY DEFICIT. EDRC RECOMMENDED (AND SWISS AGREED) THAT SWISS SHOULD KEEP SUCH MEDIUM-TERM OBJECTIVES IN MIND IN FORMULATING ANTI-CYCLICAL POLICY. END SUMMARY.

2. SHORT-TERM PROSPECTS; DOMESTIC OUTLOOK: SWISS PRESENTED NEW DATA (BASED ON REVISED NATIONAL ACCOUNTS) WHICH INDICATED THAT REAL SWISS GNP FELL BY 7 PERCENT IN 1975 (AN OECD RECORD), COMPARED WITH PREVIOUS OFFICIAL (AND SECRETARIAT) ESTIMATE OF 4 PERCENT DECLINE. IN LIGHT OF LARGE DROP IN 1975 GNP, SECRETARIAT AND SEVERAL DELEGATIONS WERE SKEPTICAL OF SWISS FORECAST OF 1-1.5 PERCENT GROWTH IN 1976. SECRETARIAT NOTED THAT EVEN OFFICIAL FORECASTS PROJECTED NO GROWTH IN REAL CONSUMPTION AND DECLINE IN PRIVATE INVESTMENT. FRG FELT THAT SWISS HAD UNDERESTIMATED PROSPECTIVE DECLINE IN PRIVATE INVESTMENT, SINCE FIRMS WERE ONLY OPERATING AT 68 PERCENT CAPACITY, WHEREAS ACCORDING TO FRG DEL 85 PERCENT UTILIZATION IS NECESSARY (IN SWISS ECONOMY) TO STIMULATE NEW INVESTMENT SPENDING. SWISS RESPONDED THAT EXCESS CAPACITY MEASURES NO LONGER RELIABLE, AS SUBSTANTIAL PORTION OF CAPITAL STOCK IS ECONOMICALLY OBSOLESCE. IN ADDITION, SWISS COUNT ON SIGNIFICANT (1.4 PERCENT) CONTRIBUTION OF REAL FOREIGN BALANCE, 6.3 PERCENT INCREASE IN GOVERNMENT CONSUMPTION AND PUBLIC INVESTMENT PROGRAMS TO SHORE UP FINAL DEMAND. NEVERTHELESS, SWISS ACKNOWLEDGED THAT THEIR FORECASTS MAY BE SOMEWHAT OPTIMISTIC AND THAT STRONG GROWTH IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 04334 01 OF 03 121159Z

WORLD TRADE WAS IMPORTANT TO THEIR REALIZATION. FOR ITS PART, SECRETARIAT MAY SHADE ITS PROJECTIONS UPWARD IN REVISED SURVEY IN LIGHT OF ADDITIONAL INFORMATION PROVIDED BY SWISS AT EDRC MEETING ON MAGNITUDE OF RECENTLY IMPLEMENTED ANTI-CYCLICAL FISCAL MEASURES (SEE PARA 6).

3. EMPLOYMENT: SWISS STATED THAT LABOR MARKET DETER-

IORATED SHARPLY IN 1975 AND THAT EMIGRATION OF 110,000
FOREIGN WORKERS (3-4 PERCENT OF ACTIVE POPULATION)
BETWEEN AUGUST 1974 AND AUGUST 1975 HAD STRONG DAMPEN-
ING EFFECT ON PRIVATE CONSUMPTION. DESPITE FORECAST
UPTURN FOR 1976, SWISS DO NOT FORESEE INCREASE IN NEW
EMPLOYMENT SINCE ADDITIONAL LABOR DEMAND WOULD LIKELY
BE MET BY REDUCTION IN SHORT-TIME WORK. THUS, BOTH

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 04334 02 OF 03 121203Z

11

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

/081 W

----- 048424

R 121147Z FEB 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 0594

INFO AMEMBASSY BERN

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 04334

SWISS AND SECRETARIAT SEE MINIMAL WAGE PRESSURE IN 1976
AND AN INFLATION RATE (4 PERCENT) WHICH SHOULD BE AMONG
OECD'S LOWEST.

4. CURRENT ACCOUNT: ALTHOUGH SWISS EXPECT FASTER
GROWTH OF EXPORT VOLUMES (4 PERCENT) THAN DOES SECRE-
TARIAT (2 PERCENT) AND SLOWER GROWTH OF IMPORT VOLUMES
(1 PERCENT VS. SECRETARIAT'S 2 PERCENT), THEY FELT THAT
SECRETARIAT'S ESTIMATE OF \$1.9 BILLION 1976 CURRENT
ACCOUNT SURPLUS WAS PROBABLY CLOSE TO MARK. SWISS HAD
NO SPECIFIC FORECASTS FOR GROWTH OF THEIR EXPORT MAR-

KETS, BUT REITERATED THEIR ASSUMPTION OF STRONG PICKUP IN WORLD TRADE THIS YEAR AND FELT THAT THOSE EXPORT INDUSTRIES WHICH ARE MOST INFLUENCED BY CYCLICAL DEVELOPMENTS (LIGHT CAPITAL MACHINERY, TEXTILES) WOULD PARTICIPATE FULLY IN EXPANSION.

5. EXCHANGE RATE POLICY: NORWAY BROACHED QUESTION OF SWISS EXCHANGE RATE POLICY AND ASKED WHETHER (A) SWISS HAD EXCHANGE RATE TARGET FOR 1976; (B) INFORMAL CONTACT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04334 02 OF 03 121203Z

WITH SNAKE COUNTRIES WOULD CONTINUE, AND (C) SWISS FELT MORE RIGID CONTROLS ON CAPITAL INFLOWS WOULD BE NECESSARY. SWISS RESPONDED THAT CURRENT EXCHANGE RATE WAS AT CRITICAL LEVEL FOR THOSE EXPORT INDUSTRIES WHICH ARE SENSITIVE TO PRICE CHANGES (I.E. TEXTILES, WATCHES), BUT THAT NO SPECIFIC TARGETS FOR 1976 WERE CONTEMPLATED. SWISS STATED FURTHER THAT THEY HAVE FOUND INFORMATION DERIVED FROM CONTACTS (WHICH THEY TERM FORMAL) WITH SNAKE COUNTRIES USEFUL, AND THAT THEY WOULD HOPE TO EXPAND AND DEEPEN SUCH CONTACTS.

6. FISCAL POLICY: SWISS DEL PROVIDED UP-DATED INFORMATION ON MAGNITUDE OF ANTI-CYCLICAL FISCAL PROGRAMS. FEDERAL TRANSFERS TO CANTONS AND COMMUNES UNDER INVESTMENT PROGRAM ARE PROJECTED TO RISE BY OVER 21 PERCENT IN 1976, WHILE COMBINED SPENDING OF FEDERAL AND LOCAL GOVERNMENTS IS EXPECTED TO GENERATE SF 3.4 BILLION IN NEW ORDERS IN 1975-1976, AN AMOUNT EQUAL TO 1.5 PERCENT OF TOTAL DOMESTIC DEMAND AND 7 PERCENT OF 1976 PRIVATE INVESTMENT DEMAND. IN ADDITION SWISS HAVE IMPLEMENTED TEMPORARY 10 PERCENT INVESTMENT SUBSIDY TOGETHER WITH EMPLOYMENT AND RETRAINING PROGRAMS. SWISS PROJECT CONSOLIDATED (FEDERAL, CANTON, COMMUNE) BUDGET DEFICIT OF SF3.4 BILLION IN 1976 (VS. SF3 BILLION ESTIMATED FOR 1975) OR 2.3 PERCENT OF 1976 GNP. (SECRETARIAT HAD PROJECTED 1976 CONSOLIDATED BUDGET DEFICIT OF 1.6 PERCENT OF GNP.) SWISS NOTED THAT 1976 BUDGET FORECASTS DID NOT INCLUDE FURTHER STIMULATORY MEASURES TO BE PRESENTED TO PARLIAMENT IN MARCH 1976, AND EMPHASIZED THAT SEVERAL PROJECTS WERE READY FOR EXECUTION SO THAT TIMING (A SECRETARIAT CONCERN) SHOULD NOT BE A PROBLEM. SECRETARIAT WILL REVISE REFDOC TO INCLUDE NEW BUDGET INFORMATION AND MAY AMEND ITS FORECASTS, AS WELL, BUT RECOMMENDED STRONGLY THAT SWISS ADOPT ADDITIONAL TEMPORARY INVESTMENT STIMULI (SUCH AS THOSE IMPLEMENTED IN U.K. AND FRG) TO ADVANCE TIMING OF INVESTMENT.

7. MONETARY POLICY: SWISS DESCRIBED THEIR MONETARY POLICY DURING 1975 AS ONE OF "CONTROLLED EXPANSION"

AND REQUESTED THAT PORTIONS OF REFDOC THAT REFER TO
"CAUTIOUS RELAXATION" OF MONETARY POLICY (E.G. PARA 28)
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 04334 02 OF 03 121203Z

BE REVISED ACCORDINGLY. SECRETARIAT AGREED TO REVISIONS (BUT NOTED THAT MODIFIERS SUCH AS "CAUTIOUS" WERE GENERALLY APPROPRIATE FOR DESCRIBING SWISS ATTITUDES AND ACTIONS). SWISS STATED THAT THEIR MONETARY POLICY OBJECTIVES ARE TO PROVIDE RIGHT CONDITIONS FOR NON-INFLATIONARY EXPANSION AND MEDIUM-TERM PRICE STABILITY, AND THAT STABLE GROWTH OF MONEY SUPPLY IN 1976 WOULD BE ESSENTIAL TO ACHIEVE THESE GOALS. THEY INDICATED TARGET FOR GROWTH OF M1 WOULD BE 6 PERCENT IN 1976 (AS IT WAS IN 1975), AND NOTED THAT AIM OF INTEREST RATE POLICY WOULD BE TO AVOID CAPITAL INFLOWS AND EXCESSIVE APPRECIATION OF FRANC. (INTERVENTION IN 1975 ADDED SF2 BILLION TO DOMESTIC LIQUIDITY.) WHILE STATING THAT 6 PERCENT TARGET SHOULD BE INTERPRETED AS AN "ORDER OF MAGNITUDE" RATHER THAN A RIGID TARGET, SWISS WERE CONFIDENT IN THEIR ABILITY TO INCREASE MONEY SUPPLY STEADILY AND IN THE CORRECT AMOUNTS. AND RECALLED THAT THEY HAD BEEN SUCCESSFUL IN PRODUCING STABLE INCREASE IN MONEY SUPPLY DURING 1975. (ACCORDING TO SWISS, LATE 1975 SPURT IN M1 GROWTH RESULTED FROM SHIFT TO SIGHT DEPOSITS FROM TIME DEPOSITS BECAUSE OF CHANGE IN INTEREST RATE STRUCTURE; THUS GROWTH OF BROADLY-DEFINED MONEY SUPPLY WAS STEADY AND SWISS EXPECT NO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 04334 03 OF 03 121208Z

20

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

/081 W

----- 048578

R 121147Z FEB 76
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 0595
INFO AMEMBASSY BERN

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 04334

INFLATIONARY IMPACT IN 1976).

8. MEDIUM-TERM PROBLEMS: SWISS AGREED WITH EDRC VIEW THAT PRIMARY MEDIUM-TERM POLICY GOALS SHOULD BE TO FACILITATE RESTRUCTURING OF SWISS ECONOMY AND REDUCE SIZE OF BUDGET DEFICIT. SWISS STATED INTENTION TO MANAGE A CONTROLLED SHRINKAGE OF CONSTRUCTION SECTOR, ADDED THAT FUTURE ANTI-CYCLICAL PROGRAMS WOULD HAVE THIS MEDIUM-TERM OBJECTIVE IN MIND. SWISS COMMENTED THAT RECENT MEASURES TO HALT REAL ESTATE SPECULATION HAD PROBABLY DEPRESSED THAT SECTOR MORE THAN WARRANTED BY MEDIUM-TERM GOALS, AND THUS FELT THAT RECENT FISCAL MEASURES TAKEN TO BOLSTER CONSTRUCTION SECTOR WERE NOT INCONSISTENT WITH MEDIUM-TERM OBJECTIVE OF CONTRACTION. SWISS POINTED TO CURRENT TECHNICAL RESTRUCTURING OF WATCH INDUSTRY IN RESPONSE TO CHANGING COMPETITIVE ENVIRONMENT. THEY ALSO NOTED THAT FURTHER EXPANSION OF EMPLOYMENT COMPENSATION AND RETRAINING PROGRAMS WOULD SMOOTH OVERALL ADJUSTMENT PROCESS AND ALLEVIATE SOCIAL BURDEN DURING TRANSITION.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 04334 03 OF 03 121208Z

9. EXPANDING BUDGETARY DEFICIT, COMBINED WITH SWISS POLICY COMMITMENT TO AVOID ITS MONETIZATION, LED EDRC AND SWISS TO CONCLUDE THAT "CROWDING OUT" COULD BECOME SERIOUS OVER MEDIUM TERM. ON CANTON/COMMUNE LEVEL, WHERE INCOME TAXES PREDOMINATE, TAXES REVENUES SHOULD RISE RELATIVELY QUICKLY WITH RECOVERY, BUT SWISS STATED THAT INCREASE IN TAX RATES MIGHT ALSO BE IN ORDER. TO REDUCE DEFICIT OF FEDERAL GOVERNMENT (WHICH RELIES PRIMARILY ON LESS INCOME ELASTIC INDIRECT TAXES), SWISS INTEND TO SUBSTITUTE VAT (AT 10 PERCENT) FOR PRESENT TURNOVER TAX, AND ESTIMATE THAT THIS CHANGE WILL ADD SF3 BILLION TO FEDERAL REVENUES BY 1979. FINALLY, SWISS SEE DECLINING POPULATION GROWTH AS LEADING TO SLOWER GROWTH OF PUBLIC EXPENDITURE ON ALL LEVELS AND

THUS TO MEDIUM-TERM REDUCTION OF BUDGETARY DEFICIT.

10. QUESTION ON MONEY SUPPLY RAISED REFTEL COVERED IN
PARA 7. RE POINT RAISED PARA 3B REFTEL, SWISS SOMEWHAT
VAGUE CONCERNING EFFECT OF FRANC APPRECIATION ON
STRUCTURAL CHANGE, BUT NOTED THAT CONSTRUCTION INDUSTRY
POSES MAJOR STRUCTURAL PROBLEM DOMESTICALLY AND THAT
ACTIVITY IN THAT SECTOR IS RELATIVELY INSENSITIVE TO
EXCHANGE-RATE MOVEMENTS. SWISS ADDED THEIR AEXPORTS
WERE DIFFERENTIATED BETWEEN PRODUCTS WHICH ARE SENSI-
TIVE TO CHANGES IN RELATIVE PRICES (TEXTILES, WATCHES)
AND THOSE WHICH ARE NOT (HEAVY CAPITAL EQUIPMENT). THUS,
CONTINUAL APPRECIATION OF FRANC COULD LEAD TO SHIFT IN
PRODUCT COMPOSITION OF EXPORTS.
TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC TRENDS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OECDP04334
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760053-0850
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760255/aaaabwdq.tel
Line Count: 346
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 27609
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2004 by greeneet>; APPROVED <01 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW OF 'SWITZERLAND' FEBRUARY 5
TAGS: ECON, SZ, OECD, EDRC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006